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Summary of the economic and social survey of Asia and the Pacific, 2005

Summary

The earthquake and tsunami disaster of 26 December 2004 took over 280,000 lives and devastated coastal areas and communities around the Indian Ocean. It occurred too late to affect economic performance for 2004, but the impact on economic growth in 2005 will be very severe in some cases. Despite the increase in oil prices, the weakness of the dollar and softening external conditions in the latter part of the year, in 2004 economies of member States of the Economic and Social Commission for Asia and the Pacific (ESCAP) grew at their fastest pace since 2000, with broad-based growth accompanied in most cases by low inflation, in part owing to fuel subsidies. Growth was driven by increased exports, a large part of which were within the region, particularly to China, as well as strong domestic demand, including a revival in capital expenditure. Prospects for 2005 indicate a slowdown in economic growth in the ESCAP region as the external environment weakens, with a pickup in inflation as higher oil prices affect the general economy. However, forecasts for 2005 are subject to a higher margin of error than before. Nevertheless, increased macroeconomic stability and external strength in the region should enable the economies in the region to withstand most shocks while working to reduce poverty, implementing ongoing reform programmes and sustaining competitiveness.

The most important feature of the demographic transition in the next half-century, with respect to Asia and the Pacific, is the rapid ageing of populations in countries that are still developing. Relative ageing of the older population itself and a rising share of women in older age groups are becoming notable features of the ageing process in the region. Governments will increasingly be under pressure not only to devise innovative mechanisms to deal with issues arising from an ageing

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population but also to ensure the long-term viability of social welfare programmes, while minimizing negative effects on the economy. The diversity of ageing in the region means that different policy responses are called for in different countries, depending on their current and expected levels of ageing. Fundamental changes in policy design, particularly in health and pension systems, will be necessary in many developing countries to minimize the pressures on service delivery, public expenditure and the overall growth potential of the economy.

The year 2005 was designated as the International Year of Microcredit, with the objective of promoting the role of microfinance and microcredit in poverty reduction. The Asia-Pacific region has a wide range of experiences in providing microfinance to the poor. The *Survey* highlights some of those experiences to facilitate a way for many poor people living in the region to improve their lives through their own efforts.

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I. Implications of recent economic and social developments

1. The *Economic and Social Survey of Asia and the Pacific, 2005*, looks at trends in the regional economy in 2004 and the policy choices facing the region. It also considers longer-term issues relating to the dynamics and diversity of trends in population ageing in the region. Finally, it contains a special feature on microcredit.

2. The earthquake and tsunami disaster of 26 December 2004, the world's worst natural disaster in living memory, took over 280,000 lives and devastated coastal areas and communities around the Indian Ocean. The provinces of Aceh and northern Sumatra in Indonesia were the worst-affected areas but the impact of the disaster on gross domestic product (GDP) growth is likely to be greatest in the smaller economies, such as Maldives and Sri Lanka, owing to their heavy reliance on tourism and fisheries. However, the overall impact of the disaster on economic performance in the region in 2005 is likely to be small.

3. The year 2004 produced the fastest global economic growth in almost three decades and the economic performance of the economies in the ESCAP region was also impressive, with an estimated growth rate of 7.2 per cent, the highest since 2000, accompanied by generally low rates of inflation (see table). The acceleration in GDP growth was most marked in East and North-East Asia, South-East Asia and the developed countries of the region, but other subregions maintained growth rates close to the levels of a year earlier. In general, growth was broadly based, supported by robust export growth and higher commodity prices as well as strong domestic demand driven by low interest rates. In particular, capital expenditure revived in many countries and foreign direct investment inflows into the region also increased sharply in 2004. The experience with inflation was more mixed, with three regions having somewhat higher inflation in 2004 as compared with 2003 and with three others having significantly lower inflation, particularly in the Pacific island economies. The overall rate of inflation in developing economies of the ESCAP region was unchanged from the previous year at 4.8 per cent in 2004.

4. The impressive economic performance in the region reaffirms the resilience of the regional economy in the face of a series of ongoing and new challenges, not the least of them the record increases in nominal crude oil prices that contributed to some loss in growth momentum in the second half of 2004 as well as to a reversal in inflationary expectations in the region. Some central banks began to raise interest rates pre-emptively, albeit in small steps to counter the risk of potentially higher inflation in 2005, signalling the end of the low-inflation, low-interest rate environment of the last two years.

5. Compounding developments in the energy markets, output growth in two important sources of external demand in the region, the United States of America and Japan, slowed somewhat in the former and showed signs of a recession in the latter in the second half of 2004. Any marked or prolonged slowdown in the momentum of growth would generate immediate social and economic repercussions for the region in terms of poverty reduction and longer-term development prospects if public investment in social and physical infrastructure were to be reduced. However, economic growth in the region has become more autonomous in the last few years with rapid increases in intraregional trade. Rapid growth in China has been instrumental in this process and prospects for 2005 will be conditioned by the success of Chinese authorities in achieving a "soft" landing.

Selected economies of the ESCAP region: rates of economic growth and inflation, 2003-2006

(Percentage)

	Real GDP				*Inflation*[a]			
	2003	*2004*[b]	*2005*[c]	*2006*[c]	*2003*	*2004*[b]	*2005*[c]	*2006*[c]
Developing economies of the ESCAP region[d]	6.3	7.2	6.2	6.2	4.8	4.8	4.6	4.0
East and North-East Asia	6.2	7.5	6.3	6.2	1.4	3.2	3.1	2.6
China	9.3	9.5	8.5	7.8	1.2	3.9	4.0	3.0
China, Hong Kong SAR	3.2	7.9	5.0	6.0	-2.5	-0.3	0.3	1.2
Mongolia	5.5	6.0	6.0	5.0	4.6	11.0	4.7	..
Republic of Korea	3.1	4.7	4.0	4.6	3.6	3.6	3.0	2.9
Taiwan Province of China	3.3	5.9	4.2	4.1	-0.3	1.7	1.5	1.5
North and Central Asia	7.6	7.2	6.5	6.3	12.9	10.2	7.7	8.2
Armenia	13.9	10.1	6.5	6.0	4.7	7.0	2.6	3.0
Azerbaijan	11.2	10.2	14.0	10.0	2.2	6.7	5.0	7.4
Georgia	11.1	8.4	5.0	5.0	4.8	5.7	5.6	5.8
Kazakhstan	9.2	9.4	8.5	8.0	6.4	6.9	6.6	7.1
Kyrgyzstan	6.7	7.1	6.0	6.5	3.1	4.1	3.5	3.6
Russian Federation	7.3	7.1	6.3	6.1	13.7	10.9	8.0	8.6
Tajikistan	11.0	10.6	5.0	7.0	17.1	6.8	8.0	6.0
Turkmenistan	17.0	7.0	11.0	7.0	6.5	9.0	8.0	7.0
Uzbekistan	4.4	4.9	5.3	6.4	13.1	2.4	2.8	3.1
Pacific island economies	3.0	3.0	2.6	2.4	10.6	3.3	3.6	..
Cook Islands	3.1	2.7	2.9	..	2.4	1.9	2.4	..
Fiji	3.0	3.8	1.5	0.7	4.2	3.5	3.0	..
Papua New Guinea	2.8	2.6	2.9	2.4	14.7	2.9	3.8	..
Samoa	3.5	4.0	3.5	..	0.1	3.0	3.0	..
Solomon Islands	5.6	4.2	4.4	..	8.3	5.6	2.5	..
Tonga	2.9	1.6	2.8	..	11.6	11.0	11.0	..
Vanuatu	2.4	3.2	2.9	2.5	2.5	2.6	2.5	..
South and South-West Asia[e]	7.2	7.4	6.4	6.7	10.0	6.8	6.8	5.5
Bangladesh	5.3	5.5	5.2	5.8	4.4	5.8	6.8	5.9
Bhutan	6.5	7.0	8.0	..	1.8	1.2	..	..
India	8.5	6.9	7.2	7.3	3.9	3.8	4.0	4.0
Iran (Islamic Republic of)	6.7	7.1	7.1	7.4	15.6	14.5	14.5	11.5
Nepal	3.1	3.7	4.0	5.0	4.8	4.0	5.5	4.6
Pakistan	5.1	6.4	6.6	7.2	3.1	4.6	5.0	5.0
Sri Lanka	5.9	5.2	5.0	6.0	6.3	7.6	12.0	6.0
Turkey	5.8	9.6	4.8	5.1	25.3	10.7	9.6	6.1
South-East Asia	4.9	6.4	5.7	5.8	3.2	4.1	4.5	3.9
Cambodia	5.2	4.3	1.9	4.3	1.1	2.0	3.0	3.7
Indonesia	4.9	5.1	5.5	5.7	6.6	6.1	7.0	5.8

	Real GDP				Inflation[a]			
	2003	2004[b]	2005[c]	2006[c]	2003	2004[b]	2005[c]	2006[c]
Lao People's Democratic Republic	5.9	6.5	7.0	7.0	15.5	11.2	7.7	5.4
Malaysia	5.3	7.1	6.0	6.1	1.2	1.4	2.2	2.7
Myanmar[f]	0.0	3.6	3.3	3.0	20.0	35.0	40.0	45.0
Philippines	4.7	6.1	5.3	5.2	3.5	6.0	6.0	5.0
Singapore	1.4	8.4	5.2	4.9	0.5	1.7	1.4	1.3
Thailand	6.9	6.1	6.0	6.3	1.8	2.7	3.2	2.4
Viet Nam	7.3	7.7	8.5	8.0	3.0	9.5	6.5	8.0
Developed economies of the ESCAP region	1.4	2.7	1.6	1.3	-0.1	0.2	0.3	0.4
Australia	3.0	3.5	3.0	3.0	2.8	2.3	2.8	2.7
Japan	1.3	2.6	1.5	1.1	-0.3	0.0	0.1	0.2
New Zealand	3.3	4.8	2.7	2.9	1.8	2.3	3.0	2.8

Sources: Economic and Social Commission for Asia and the Pacific, based on national sources; International Monetary Fund, *International Financial Statistics*, vol. LVII, No. 10 (Washington D.C., October 2004); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2004* (Manila, 2004) and *Asian Development Outlook 2004 Update* (Manila, 2004); Economic Intelligence Unit, *Country Reports* and *Country Forecasts* (London, 2004 and 2005), various issues; and website of the Interstate Statistical Committee of the Commonwealth of Independent States, http://www.cisstat.com, 26 October 2004 and 3 February 2005.

[a] Changes in the consumer price index.

[b] Estimate.

[c] Forecast/target.

[d] Based on data for (developing) economies representing more than 95 per cent of the population of the region (including the Central Asian republics); GDP figures at market prices in United States dollars in 2000 (at 1995 prices) have been used as weights to calculate the regional and subregional growth rates. In the case of Pacific island economies for 2006, estimates based on figures available.

[e] The estimates and forecasts for countries relate to fiscal years defined as follows: fiscal year 2004/05 = 2004 for India, the Islamic Republic of Iran and Myanmar; and fiscal year 2003/04 = 2004 for Bangladesh, Nepal and Pakistan.

[f] Inflation at the end of the period.

6. The strong growth of the global economy in 2003 and 2004 was both reflected in and driven by strong growth in world trade. The ESCAP region is a major contributor to world trade growth, with both exports and imports growing faster than world exports and imports and with China becoming the world's third-largest trading nation. However, trade flows are not static, and Governments in the region need to be alert to structural changes occurring in those flows to assist businesses in adapting to such changes. In that regard, the expiry of the Arrangement Regarding International Trade in Textiles (Multifibre Arrangement) on 1 January 2005 is expected to benefit China, India and Pakistan but will adversely affect a number of smaller economies in the region.

7. In tandem with an expected fall in world economic growth in 2005, growth in international trade is also expected to slow in real terms. Import demand within the developing economies is unlikely to compensate fully for the slowdown in the developed economies, but China will continue to be an important determinant of trade performance for most parts of the region. In this context, the adoption of the so-called "July package" has raised hopes for the Doha round of World Trade Organization negotiations and the momentum of regional and bilateral free trade agreements has continued in parallel in 2004 in the region.

8. Large current account imbalances continue to characterize the global economy, and a lower dollar would contribute to reducing the United States deficit. However, many economies in the ESCAP region have relied on American import demand as an important driver of growth, which would be choked off by a sizeable fall in the dollar. In addition, a fall in the dollar could also push up inflation in the United States, leading to higher American and global interest rates. Despite the firming up of interest rates in recent months, their very low levels over the past two years have encouraged the growth of a variety of alternative investment vehicles, primarily in the form of highly leveraged hedge funds, and excessive flows of speculative funds in Asia, both of which warrant closer attention to avoid potential upheavals in financial markets.

9. A factor worthy of note is that developing economies in the ESCAP region have become net exporters of capital as persistent current account surpluses in some countries combined with a sharp increase in net private capital flows have been reflected primarily in the substantial accumulation of official reserves. The matter raises significant policy issues for the countries concerned as well as for the region.

10. Prospects for 2005 indicate a slowdown in GDP growth in the ESCAP region to an estimated 6.2 per cent as the external environment weakens, with inflation slowing slightly to an estimated 4.6 per cent, based on the assumption that the average price of oil will be around 38 dollars ($) per barrel. However, the forecasts are subject to a higher margin of error than a year or so ago owing to the prevailing uncertainty regarding the future course of oil prices. In addition, shocks such as the tsunami disaster and avian influenza can have a significant impact on short-term growth. Furthermore, the different subregions of ESCAP as well as the individual economies are likely to respond very differently to the challenges of maintaining the present growth momentum, as highlighted below.

11. Overall growth in East and North-East Asia in 2004 climbed to 7.5 per cent, 1.3 percentage points higher than in 2003. As in the other subregions of the Economic and Social Commission for Asia and the Pacific, inflation increased in 2004 and is expected to stay high in 2005. Growth prospects for the subregion in 2005 are closely linked to the impact of measures that the Government of China is currently taking to slow its economy in 2005. The consensus of opinion is that the economy of China should decelerate gradually to a more sustainable pace in 2005 and beyond and by so doing would provide ample policy space for countries and economies in the subregion, as well as in the wider ESCAP region, to adjust.

12. There is a need for the authorities in China to introduce greater flexibility in establishing and implementing interest and exchange rate policies and to continue with reform measures. While the fiscal situation is not currently a matter of concern in most countries of the subregion, steps to ensure fiscal soundness may be necessary in Hong Kong, Special Administrative Region (SAR) of China.

13. Data for 2004 indicate that North and Central Asia enjoyed another year of buoyant growth, although marginally slower than the pace attained in 2003. The rate of inflation decelerated in the Russian Federation and Uzbekistan, but still remained high in the former. Significant price pressures emerged in the other subregional economies. Prospects for 2005 in the subregion are for a moderation in output growth and in inflation as oil and other commodity prices ease in the months ahead.

14. The energy sector has been the main driver of growth in much of North and Central Asia, accounting for approximately one third of GDP and over one half of exports in Kazakhstan and the Russian Federation. However, a backlog of investments in pipeline and port capacity and more generally in energy infrastructure has put a limit on growth in the sector, at least in the short term. In addition, despite reforms in recent years, the non-oil sectors of the economy are not yet a viable alternative source of growth.

15. Real GDP growth continued at a modest pace in 2004 in the Pacific island economies. Higher prices for commodity exports, including oil in the case of Papua New Guinea, and increased tourism supported positive growth. Improved economic management has reduced budget deficits and lowered public debt and, as a result, monetary management has been able to improve inflation performance greatly. However, the rise in oil prices could jeopardize the progress made if the increase is maintained in 2005. The outlook for 2005 is for a slowdown in economic growth as commodity prices decline but for a slight increase in inflation.

16. A notable feature of the Pacific island economies is that macroeconomic stabilization has not resulted in faster economic growth so far, principally owing to the absence of an investor-friendly environment. Political instability and poor governance are major contributors to the poor climate for investment, as are corruption and law-and-order problems. Insufficient attention to rural development continues to undermine poverty reduction efforts in the subregion. Finally, policies to ensure sustainable development and prevent the overexploitation of natural resources are urgently needed.

17. Economic growth improved marginally in 2004 in the developing economies of South and South-West Asia on the relatively high rate attained the previous year despite poor weather in South Asia and the higher cost of oil. Rates of inflation picked up in Pakistan and Sri Lanka, falling somewhat in India and the Islamic Republic of Iran and more sharply in Turkey. The outlook for 2005 is for a continuation of the present inflation trends in most cases, with overall GDP growth in the subregion forecast to be 1 percentage point down from 2004. In particular, GDP growth is expected to be 1 per cent lower than predicted earlier in Sri Lanka owing to the effects of the tsunami.

18. In recent years, all the economies in South and South-West Asia have benefited from structural reform programmes that have sought to stabilize and improve macroeconomic fundamentals and provide production incentives for both agriculture and manufacturing on a sustained basis. However, success in this regard has been uneven. Fiscal consolidation has made limited headway, and, with interest rates now rising, the effect on the budget of a higher burden of debt servicing could be a matter of some concern.

19. Among the least developed countries in South Asia, economic growth improved modestly, although Afghanistan and Bangladesh were affected by bad weather. Maldives was devastated by the tsunami of December 2004, which will have a severe impact on its performance in 2005. Political events in a number of the least developed countries are also expected to influence progress in 2005. Inflation was generally lower in 2004, partly owing to currency appreciation, which offset the sharp increase in petroleum prices to some extent. Despite the expiry of the Multifibre Arrangement, the external sector is expected to become an increasingly

important source of economic growth as a result of increased trade liberalization and regional integration.

20. GDP growth in South-East Asia in 2004 exceeded expectations and improved on 2003 growth by the wide margin of 1.5 percentage points. Growth was broadly based in most countries, and manufacturing, in particular, benefited from the upturn in the electronics cycle and strong export demand. Higher food and energy prices put upward pressure on price levels in the subregion, which was partially offset by fuel subsidies in some countries. While the earthquake and tsunami disaster lowered expected growth in 2005 somewhat in Thailand, Indonesia is still expecting GDP growth to increase next year. For the subregion as a whole, the collective GDP growth rate is expected to ease by around 0.7 per cent in 2005. While high commodity prices boosted several economies in the subregion in 2004, with Indonesia, Malaysia and Viet Nam benefiting from the higher prices, the use of oil price subsidization in several countries, particularly Indonesia, Malaysia and Thailand, is likely to pose a difficult fiscal problem before too long.

21. There is a general view that financial and corporate restructuring has been largely completed in South-East Asia, while budget deficits have narrowed or, as in Thailand, the budget has remained in surplus. Better job creation and faster economic growth have helped to reduce poverty incidence in the subregion but policymakers continue to be preoccupied with the task of increasing the competitiveness of their economies, in part through greater public investment in infrastructure.

22. In the least developed countries in South-East Asia, economic growth continues to vary widely from year to year, depending on developments in the agricultural sector. With the exception of Myanmar, inflation tended to be lower in 2004 in all of these countries owing to greater exchange rate stability as well as to prudent monetary policies, although the rise in oil prices was beginning to affect the general price level. Development of the agricultural sector, which employs a significant portion of the labour force in the least developed countries of South-East Asia, is essential for poverty reduction, especially in rural areas. The expiry of the Multifibre Arrangement is also expected to affect industrial and export growth adversely in both Cambodia and the Lao People's Democratic Republic.

23. In the developed countries of the region, the recent revision of economic data from Japan seems to indicate that there was a shallow recovery in 2003 in that country after years of stagnation and that growth was much stronger in 2004, despite a slowdown in the second half of the year, but lower than previously thought. Growth also accelerated in New Zealand while remaining substantially unchanged in Australia in 2004, supported by buoyant domestic demand and high commodity prices. Economic growth is expected to moderate in 2005 in all three countries if the external environment weakens and uncertainty remains about the sustainability of domestic demand.

24. Deflationary pressures eased in Japan but firm evidence that deflation has ended is still awaited. The fiscal deficit continues to present a daunting challenge in Japan. The fiscal position in both Australia and New Zealand remained strong in 2004 but monetary policy was tightened in the latter in the face of a build-up of price pressures in recent months, and additional measures are expected if oil prices remain high. The boom in the housing market appears to have passed its peak in

Australia and inflation was subdued, but some increase in inflation is expected in both countries in the short term.

II. Policy issues and challenges

25. In the near term, the first issue with significant policy connotations for Governments in the region is that oil prices have aggravated the situation of already significant volatility and are likely to remain under upward pressure for some time. They thus pose a significant threat of inflation, and the uncertainty about their future course is likely to discourage investment. Second, there is a distinct risk that the external environment will deteriorate in the coming months. Third, those developments, together with a weakening dollar, will pose a major challenge to maintaining growth and macroeconomic stability in the months ahead. In that regard, Governments may wish to consider inflation targeting as a possible option, as well as acting to eliminate fuel subsidies. Regional cooperation to create an oil reserve to reduce oil price fluctuations may also be worth investigating.

26. There are several longer-term development policy issues facing the countries in the ESCAP region. First, the tsunami disaster illustrated the lack of a systematic disaster management framework, including disaster mitigation measures, in many countries. Policymakers will need to pay much more attention to disaster prevention and preparedness as outlined in the Hyogo Framework for Action 2005-2015: Building the Resilience of Nations and Communities to Disasters (A/CONF.206/6, chap. I, resolution 2), adopted at the World Conference on Disaster Reduction, held in Kobe, Japan, in January 2005.

27. The tsunami disaster also underscored the continuing challenge of poverty reduction in the region. It highlighted the importance of handling vulnerability to achieve a sustainable reduction in poverty in line with the first Millennium Development Goal. While most countries in the Asia-Pacific region are making progress in meeting that Goal, they are nevertheless likely to miss many of the Goals that do not relate to income. Reaching the targets within and across countries will require more resources, national as well as international, as well as a radical shift in attitudes, priorities and policies to ensure equitable, effective and sustainable basic services.

28. Achieving the twin challenges of sustaining growth and reducing inequality has high priority on the policy agenda of the region. Economic growth is not sustainable without human development, and for policymakers the focus must be on strengthening the links between the two. Some of the most important issues are employment opportunities, especially for the young; access to productive assets; public spending on the provision of basic social services; gender equality; and population policy and good governance. While the importance of good physical infrastructure is well known, social infrastructure is equally important and should be understood to incorporate an underlying "social contract" between citizens and the State. In that regard, a proper balance needs to be struck between the public and private provision of social services.

29. A final issue concerns the role of Governments in improving competitiveness at the enterprise and national levels. Competitiveness is determined by both real and monetary factors. The role that Governments can play in maintaining and enhancing competitiveness is either as a provider of public goods and social infrastructure or

as an enabler of the process, which also encompasses encouraging innovation and investment in technology by enterprises.

III. Dynamics of population ageing: how can Asia and the Pacific respond?

30. Population ageing, the process by which older individuals form a proportionately larger share of the total population, was one of the most distinctive demographic events of the late twentieth century. Its effects are amplified by declines in mortality and fertility rates, mainly as a result of improved health conditions and population policies in recent years.

31. The intensity of ageing in the region is bound to increase at a faster rate in the twenty-first century. The number of persons aged 60 years and over increased more than threefold in 50 years, from 96 million in 1950 to 326 million in 2000, representing 10 per cent of the population. An even faster rate of increase is expected in the next 50 years, raising the number of persons in this age group to over 1.2 billion by 2050, nearly one quarter of the population.

32. The most important feature of the demographic transition in the next half century, with respect to the Asia-Pacific region, is the rapid ageing of the population in countries that are still developing. Relative ageing of the old-age population itself is becoming a notable feature of the ageing process in the region. Another important dimension of the ageing process is the rising share of women in the older age groups.

33. Governments will increasingly be under pressure not only to devise innovative mechanisms to deal with issues arising from an ageing population but also to ensure the long-term viability of social welfare programmes, while minimizing the negative effects on the economy. The severity and complexity of such challenges will depend on the stage of economic development, the stage of ageing and the level of preparedness.

34. The fact that ageing is not a transient issue makes it necessary to respond to the ageing process in time. The diversity of ageing in the region means that different policy responses are called for in different countries depending on their current and expected levels of ageing. Fundamental changes in policy design, particularly in health and pension systems, will be necessary in many developing countries to minimize the pressures on service delivery, public expenditure and the overall growth potential of the economy. The ability to anticipate the demographic transition with a fairly high degree of accuracy provides countries with ample room to better prepare for the challenges posed by ageing and makes it a surmountable problem, provided that proper action is taken in time.

35. Responding to ageing in advance would enable countries to reap the "demographic dividend" produced by reduced fertility rates. It also gives countries whose populations are still young a time-bound opportunity to capitalize on their demographic conditions and benefit from the ageing of other countries by making productive use of their young labour force. However, collecting the demographic dividend would require that appropriate policies be in place.

36. The demographic changes that will be experienced by countries with ageing populations are likely to have a significant influence on public expenditure, in particular on the provision of pensions and health care. In many countries in the region, public pension schemes are pay-as-you-go systems with the financial burden accumulating over time. Rapid ageing of the population, with a shrinking labour force, will impose pressure on public expenditure on pensions as the number of retirees increases while the number of contributors to pension funds becomes smaller. The combination of factors will have a negative impact on pension funds unless adjustments are made and new solutions found to address the issue.

37. Converting unfunded pension schemes to funded pension systems is one option available to Governments. The advantage of moving towards funded pension schemes is that it enables Governments to minimize the economic costs of restoring long-run fiscal sustainability in the face of ageing-related pressures by spreading the required adjustment over a long period.

38. Pension reforms may also include the following measures (a) to increase coverage by introducing multi-pillar structures consisting of a mandated, publicly managed, defined-benefits scheme for redistributive and co-insurance objectives, combined with a privately managed and funded defined-contribution scheme for savings and retirement provisions on a voluntary basis for those who would like more protection in old age; (b) to give autonomy in decision-making to fund managers; (c) to provide opportunities for innovation in market instruments; and (d) to make pensions portable while improving labour-market flexibility.

39. Other options include increasing the age of retirement and removing incentives to early retirement. The impact of an increase in the retirement age on unemployment could be offset to some extent by implementing pension reforms along with labour-market reforms to increase the flexibility of the labour market.

40. The rapid ageing of the population in the region, in particular the ageing of the older population, would increase expenditure on public health. Consequently, health insurance would be an effective mechanism to finance the health-care needs of the elderly. However, at present only a few countries have private prepaid health insurance, which is otherwise almost non-existent in developing countries in the Asia-Pacific region. In many countries health-care expenditure is borne either by the Government or by individuals themselves. Health promotion throughout life would be a key factor for a healthy life during old age.

41. An important implication of the decline in the fertility rate to replacement level or below is the pressure on the family to care for the elderly. That demographic change can result in a 2-2-4 family structure, that is, a middle-aged couple who have to support two children as well as four parents. Such a family structure would compel present and future generations to look for alternative arrangements to take care of older parents. Social and fiscal policies could be used to promote filial responsibility for taking care of the elderly, along with public provision of institutional elder care, while creating an environment conducive to the provision of such services by the private sector and not-for-profit organizations. Low-income countries could also be promoted as retirement centres.

42. Older persons are often afflicted by poverty, owing to a host of factors, and poverty among the rural elderly, in particular older women, tends to be severe since formal or informal social security is largely absent. Women tend to live longer than

men, and rapid urbanization, which results in the migration of mostly young people to urban areas, leads to the isolation of older rural women in particular. With the expected decline in the potential support ratio from 10.9 per cent in 2000 to 3.8 per cent by 2050, the poverty aspects of ageing could become worse in the next few decades, underscoring the need for formal social support and elder care.

43. However, discriminatory treatment of older workers, particularly in relation to job recruitment, promotion and training, creates a stigma and social exclusion. The elimination of such discriminatory attitudes requires the creation of a climate of acceptance so that the elderly can be integrated into mainstream development. The implementation of national and regional action plans established in line with the Shanghai Implementation Strategy: Regional Implementation Strategy for the Madrid International Plan of Action on Ageing 2002 and with the Macao Plan of Action on Ageing for Asia and the Pacific 1999 could provide an enabling and supportive environment for ageing.

44. Reforms in the labour market are required to meet the challenges and seize the opportunities presented by population ageing. Liberalization of the labour market would need to focus on the effect of the declining labour force, productivity, migration and the adaptability of older workers to the present working environment. Labour markets should also respond to the needs of older workers, who will become an important component of the labour force in years to come. Job redesign, reorganization of the division of labour and the provision of a flexible working environment to meet the aspirations of those workers could be effective policy responses to an ageing workforce.

45. Historical population movements indicate that international migration can play an important role in offsetting many of the consequences of population ageing and labour shortages, although it may not be able to do so completely. The fact that human migration is a transnational phenomenon makes handling migration for the benefit of both the home and host countries a global issue. Formal arrangements between countries that export and import labour through bilateral or regional cooperation could benefit all parties as they could solve unemployment problems in exporting countries while meeting supply shortages in importing countries.

46. It is an opportune moment to explore the possibilities of bringing international human migration under a global framework for ensuring an orderly and rules-based flow of persons. A fresh look at the existing global frameworks for widening the scope of such initiatives for human migration, such as Mode 4 of the General Agreement on Trade in Services, would be a starting point.

47. Just as the population policies of recent years play some role in present-day demographic dynamics, population policy could also be used to reverse rapid fertility declines. Some countries have already taken steps to provide such incentives as housing priority for large and multigeneration families, flexitime for mothers to nurture their children, cash and fiscal incentives, childcare subsidies and enhanced child relief in income taxation. However, such changes should be implemented only through a carefully planned population policy since a quick reversal of the gains of low fertility could undermine the well-being of future generations.

IV. Microfinance in poverty reduction — challenges in Asia and the Pacific

48. The Asia-Pacific region has had a varied experience in providing microfinance to the poor, particularly in South Asia. Of the 179 validated microfinance institutions (MFIs) in Asia, 144 are in South Asia, and half of them are in Bangladesh alone. Microfinance institutions in South Asia have experimented with various microfinance schemes, such as the provision of credit and savings programmes targeting poor women, the mobilization of voluntary savings, the promotion of self-help groups and the involvement of private investment in microfinance. In East and South-East Asia, microfinance schemes range from large schemes involving formal financing institutions to others developed by non-governmental organizations that have a strong presence in those subregions. Four distinct types of microfinance institutions are operating in the countries of North and Central Asia: credit unions, non-governmental organization MFIs, commercial banks and microfinance banks. Microfinance in Pacific island economies is still in an embryonic stage, with no cases of sustained success in microfinance initiatives for poverty reduction. However, savings mobilization and provision of loans for consumption are becoming more significant as poverty becomes more evident in many economies of the subregion. Microfinance has gained in importance in poverty reduction efforts undertaken by developing countries in the ESCAP region, illustrated by the range of such initiatives that can be seen within the region. Nevertheless, the region still faces challenges in enhancing the contribution of microfinance initiatives to ensuring further poverty reduction, including the sustainability of microfinance, a lack of accountability and transparency and qualitative and quantitative assessment of the impact of microfinance on poverty reduction policies.